

**REPORT OF THE AUDIT OF THE  
OWSLEY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2007**



**CRIT LUALLEN  
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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Cale Turner, Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the financial statements of the governmental activities and each major fund of Owsley County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Morgan-Franklin, LLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated Owsley County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT**

**June 30, 2007**

Morgan-Franklin, LLC has completed the audit of the Owsley County Fiscal Court for fiscal year ended June 30, 2007. We have issued an unqualified opinion on the governmental activities and each major fund of Owsley County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$3,064,368 as of June 30, 2007. The fiscal court had unrestricted net assets of \$61,902 in its governmental activities as of June 30, 2007. The fiscal court had total debt principal as of June 30, 2007 of \$357,988 with \$256,097 due within the next year.

#### **Report Comments:**

- 2007-1 The County Should Bid All Expenditures Greater Than Twenty Thousand Dollars Or Duly Certify That An Emergency Exists
- 2007-2 The County Judge/Executive Appears To Have Been Underpaid
- 2007-3 The Fiscal Court Should Prepare A Budget For The LGED Fund
- 2007-4 The County Treasurer Should Post Payments To The Appropriate Account Code

#### **Deposits:**

As of June 30, 2007, the County's deposits were covered by FDIC insurance or a properly executed collateral security agreement.



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To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owsley County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, Owsley County, Kentucky, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owsley County, Kentucky, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007, on our consideration of the Owsley County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Former Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Based on the results of our audit, we present the comments and recommendations, included herein, which discusses the following report comments:

- 2007-1 The County Should Bid All Expenditures Greater Than Twenty Thousand Dollars Or Duly Certify That An Emergency Exists
- 2007-2 The County Judge/Executive Appears To Have Been Underpaid
- 2007-3 The Fiscal Court Should Prepare A Budget For The LGED Fund
- 2007-4 The County Treasurer Should Post Payments To The Appropriate Account Code

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan – Franklin,

October 19, 2007

OWSLEY COUNTY OFFICIALS

For The Year Ended June 30, 2007

**Fiscal Court Members:**

Cale Turner	County Judge/Executive
Jesse Bishop Jr.	Magistrate
Larry Chandler	Magistrate
Mike Harris	Magistrate

**Other Elected Officials:**

Henley McIntosh	County Attorney
Hubert Shouse	Jailer
Sid Gabbard	County Clerk
Mike Mays	Circuit Court Clerk
Kelly Shouse	Sheriff
Monica Barrett	Property Valuation Administrator
Eddie Isaacs	Coroner

**Appointed Personnel:**

Christine Moore	County Treasurer
Barbara Whittaker	Finance Officer

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**OWSLEY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2007**



**OWSLEY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2007**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 61,902
Total Current Assets	<u>61,902</u>
Noncurrent Assets:	
Assets Held For Sale	195,600
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	93,402
Construction In Progress	464,502
Buildings	624,271
Vehicles and Equipment	997,648
Infrastructure Assets - Net of Depreciation	<u>985,033</u>
Total Noncurrent Assets	<u>3,360,456</u>
Total Assets	<u>3,422,358</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	<u>256,097</u>
Total Current Liabilities	<u>256,097</u>
Noncurrent Liabilities:	
Financing Obligations	<u>101,891</u>
Total Noncurrent Liabilities	<u>101,891</u>
Total Liabilities	<u>357,988</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	3,002,468
Unrestricted	<u>61,902</u>
Total Net Assets	<u><u>\$ 3,064,370</u></u>

The accompanying notes are an integral part of the financial statements.





**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets Primary Government
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 950,777	\$	\$ 216,352	\$ 373,790	\$ (360,635)
Protection to Persons and Property	328,764		40,941		(287,823)
General Health and Sanitation	105,830	32,183			(73,647)
Social Services	8,686				(8,686)
Recreation and Culture	84,894		111,726		26,832
Roads	621,824		1,369,324		747,500
Interest On L/T and S/T Debt	14,116				(14,116)
Capital Projects	10,600				(10,600)
Total Governmental Activities	\$ 2,125,491	\$ 32,183	\$ 1,738,343	\$ 373,790	\$ 18,825

**General Revenues:**

Taxes:

Real Property Taxes	123,569
Bank Franchise	14,653
Motor Vehicle Taxes	23,670
Insurance License Tax	186,759
Other Taxes	5,261
In Lieu Tax Payments	44,329
Miscellaneous Revenues	280,823
Interest Received	3,776

Total General Revenues	682,840
Change in Net Assets	701,665
Net Assets - Beginning	2,362,705
Net Assets - Ending	<u>\$ 3,064,370</u>

The accompanying notes are an integral part of the financial statements.

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**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2007**

**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2007**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 20,107	\$ 27,612	\$ 7,853	\$ 6,330
Total Assets	<u>\$ 20,107</u>	<u>\$ 27,612</u>	<u>\$ 7,853</u>	<u>\$ 6,330</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	\$ 14,849	\$ 14,800	\$ 8,093	\$ 300
Unreserved:				
General Fund	5,258			
Special Revenue Funds		12,812	(240)	6,030
Total Fund Balances	<u>\$ 20,107</u>	<u>\$ 27,612</u>	<u>\$ 7,853</u>	<u>\$ 6,330</u>

The accompanying notes are an integral part of the financial statements.

**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2007**  
**(Continued)**

<b>Local Government Economic Development Fund</b>	<b>Total Governmental Funds</b>
\$	\$ 61,902
\$ 0	\$ 61,902
\$	\$ 38,042
	5,258
	18,602
\$ 0	\$ 61,902

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 61,902
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Of \$4,302,797, Net Of Accumulated Depreciation Of \$1,137,941, Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	3,164,856
Assets Held For Sale	195,600
Short-term And Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	(357,988)
Net Assets Of Governmental Activities	\$ 3,064,370

The accompanying notes are an integral part of the financial statements.

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**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>REVENUES</b>			
Taxes	\$ 353,920	\$	\$
In Lieu Tax Payments	18,521	25,808	
Intergovernmental	588,327	1,234,426	37,510
Charges for Services	31,132		
Miscellaneous	236,091	44,210	366
Interest	2,482	1,142	79
Total Revenues	<u>1,230,473</u>	<u>1,305,586</u>	<u>37,955</u>
<b>EXPENDITURES</b>			
General Government	836,979	10,800	
Protection to Persons and Property	114,408		212,296
General Health and Sanitation	89,550		
Social Services	3,886		
Recreation and Culture	39,298		
Roads		1,411,204	
Debt Service	415	221,485	817
Capital Projects	10,000	600	
Administration	178,548	179,681	4,554
Total Expenditures	<u>1,273,084</u>	<u>1,823,770</u>	<u>217,667</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	  (42,611)	  (518,184)	  (179,712)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds From Sale Of Assets		170,155	
Financing Obligation Proceeds		474,300	
Transfers From Other Funds	222,000	103,420	187,000
Transfers To Other Funds	(195,550)	(222,000)	(6,500)
Total Transfers & Other Financing Sources (Uses)	<u>26,450</u>	<u>525,875</u>	<u>180,500</u>
Net Change in Fund Balances	(16,161)	7,691	788
Fund Balances - Beginning	36,268	19,921	7,065
Fund Balances - Ending	<u>\$ 20,107</u>	<u>\$ 27,612</u>	<u>\$ 7,853</u>

The accompanying notes are an integral part of the financial statements.

**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2007**

<b>Local Government Economic Assistance Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Total Governmental Funds</b>
\$	\$	\$
		353,920
		44,329
141,194	111,727	2,113,184
		31,132
157		280,824
73		3,776
<u>141,424</u>	<u>111,727</u>	<u>2,827,165</u>
16,749		864,528
23,697		350,401
1,600		91,150
4,800		8,686
	113,277	152,575
		1,411,204
		222,717
		10,600
4,353		367,136
<u>51,199</u>	<u>113,277</u>	<u>3,478,997</u>
90,225	(1,550)	(651,832)
		170,155
		474,300
6,500	1,550	520,470
<u>(96,420)</u>	<u></u>	<u>(520,470)</u>
<u>(89,920)</u>	<u>1,550</u>	<u>644,455</u>
305		(7,377)
6,025		69,279
<u>\$ 6,330</u>	<u>\$ 0</u>	<u>\$ 61,902</u>

The accompanying notes are an integral part of the financial statements.

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**OWSLEY COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**OWSLEY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds	\$	(7,377)
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		989,194
Depreciation Expense		(195,940)
Book Value of Disposed Assets		(14,112)
Assets Held for Sale		380,800
Disposal of Assets Held For Resale		(185,200)

The Issuance of Debt Provides Current

Financial Resources to Governmental Funds While Lease Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have no Effect on Net Assets.

Financing Obligation Proceeds		(474,300)
Financing Obligations Payments		208,600

Change in Net Assets of Governmental Activities	\$	701,665
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Loans receivable are recognized on the Statement of Net Assets, but loans receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, as amended by GASB 39, there are no component units which merit consideration as part of the reporting entity.

**C. Owsley County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Property Tax Calendar**

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, due with 2% discount if paid by November 1, due at face value if paid by December 31, delinquent on and after January 1 following the assessment, and subject to lien and sale April 30.

**E. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Owsley County, major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development (GOLD) requires a separate fund or where management requires that a separate fund be used for some function.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Government-wide and Fund Financial Statements (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The purpose of this fund is to account for funds earmarked for economic assistance. The primary sources of revenue for this fund are from the state. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development Fund – The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**F. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**H. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**I. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**K. Joint Venture**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Three Forks Regional Jail is considered a joint venture of the Owsley County Fiscal Court.

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements of the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements of the bonds as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8)-member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County jailer is a required member of the board.

A copy of the Three Forks Regional Jail Authority's most recent audit report may be obtained at Three Forks Regional Jail 2475 Center Street, Beattyville, Kentucky 41311.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institutions failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2007, the County's deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Construction In Process	\$ 59,954	\$ 404,548	\$	\$ 464,502
Land and Land Improvements	93,402			93,402
Total Capital Assets Not Being Depreciated	153,356	404,548		557,904
Capital Assets, Being Depreciated:				
Buildings	1,012,303			1,012,303
Vehicles and Equipment	1,286,947	258,389	(50,400)	1,494,936
Infrastructure	911,397	326,257		1,237,654
Total Capital Assets Being Depreciated	3,210,647	584,646	(50,400)	3,744,893
Less Accumulated Depreciation For:				
Buildings	(371,986)	(16,046)		(388,032)
Vehicles and Equipment	(459,356)	(74,220)	36,288	(497,288)
Infrastructure	(146,947)	(105,674)		(252,621)
Total Accumulated Depreciation	(978,289)	(195,940)	36,288	(1,137,941)
Total Capital Assets, Being Depreciated, Net	2,232,358	388,706	(14,112)	2,606,952
Governmental Activities Capital Assets, Net	\$ 2,385,714	\$ 793,254	\$ (14,112)	\$ 3,164,856

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 15,519
Protection to Persons and Property	28,733
General Health and Sanitation	568
Recreation and Culture	10,097
Roads, Including Depreciation of General Infrastructure Assets	<u>141,023</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 195,940</u></u>

**Note 4. Construction In Progress**

During the fiscal year ended June 30, 2007, the fiscal court was in the process of constructing the Senior Citizen's Building and a library for the Three Forks Regional Jail. As of June 30, 2007 \$351,225 and \$113,277 respectively, was capitalized as part of construction in progress.

**Note 5. Short-term Debt**

**A.** On July 13, 2006 the Fiscal Court executed a note with Farmers State Bank for operating expenses. The principal amount of the note was \$50,000 with an interest rate of 5.75%. The note was paid in full as of June 30, 2007.

**B.** On July 13, 2006 the Fiscal Court executed a note with Farmers State Bank for operating expenses. The principal amount of the note was \$40,000 with an interest rate of 5.75%. The note was paid in full as of June 30, 2007.

**C.** On May 17, 2006, Owsley County entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the renovation of the Three Forks Regional Jail. The principal amount of the lease was \$20,000 with an interest rate of 4.907%. The agreement requires monthly interest payments and one annual principal payment due June 20, 2006. The principal amount of \$20,000 was outstanding as of June 30, 2007.

**D.** On September 19, 2006 the Fiscal Court entered into a lease agreement in the amount of \$185,200 with the Kentucky Association of Counties Leasing Trust for a truck purchase project. The agreement requires one payment due September 20, 2007, with an interest rate of 4.991%. The County purchased heavy trucks to use for one year; then the trucks will be sold at an auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. On March 26, 2007 the fiscal court sold the trucks at the auction and received \$170,155. The County paid off the lease with the proceeds and \$15,045 of County funds. As of June 30, 2007 the lease was paid in full.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 5. Short-term Debt (Continued)**

E. On April 4, 2007, the Owsley County Fiscal Court entered into a lease agreement in the amount of \$195,600 with the Kentucky Association of Counties Leasing Trust for a truck purchase project. The County purchased heavy trucks to use for one year; then the trucks will be sold at an auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires one payment due May 20, 2008, with an interest rate of 5.205%. The principal balance of the agreement was \$195,600 as June 30, 2007.

F. In July 2006, Owsley County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing notes in the amount of \$320,750, with principal being due in January 2007 with an interest rate of 4.65%. The county received net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$2,192.

**G. Changes in Short-term Debt**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Financing Obligations (Note 5C.,D.,E.)	\$ 20,000	\$ 380,800	\$ 185,200	\$ 215,600	\$ 215,600

**Note 6. Long-term Debt**

**A. Road Equipment**

On June 25, 2004, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of road equipment. The principal amount of the lease was \$169,193. The agreement requires monthly interest payments and annual principal payments in January to be paid in full January 20, 2009 with a variable interest rate. The principal amount of \$48,888 was outstanding as of June 30, 2007. Lease payments for the remaining years are:

**KACO**  
**Road Equipment**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2008	24,089	2,002
2009	24,799	761
Totals	\$ 48,888	\$ 2,763



**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**B. Drill**

On January 8, 2007 the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a drill for the road department. The principal amount of the lease was \$58,000. The agreement requires monthly interest payments and annual principal payments in July to be paid in full July 2011, with an interest rate of 5.305%. The principal amount of \$58,000 was outstanding as of June 30, 2007. Lease payments for the remaining years are:

**KACO**  
**Drill**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 10,000	\$ 2,594
2009	10,000	2,069
2010	10,000	1,525
2011	15,000	755
2012	13,000	58
Totals	<u>\$ 58,000</u>	<u>\$ 7,001</u>

**C. Ramming Hammer**

On June 12, 2007 the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a ramming hammer for the road department. The principal amount of the lease was \$35,500. The agreement requires monthly interest and principal payments to be paid in full June 2012, with an interest rate of 4.25% plus fees. The principal amount of \$35,500 was outstanding as of June 30, 2007. Lease payments for the remaining years are:

**KACO**  
**Ramming Hammer**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 6,408	\$ 1,903
2009	6,754	1,513
2010	7,054	1,166
2011	7,447	809
2012	7,837	424
Totals	<u>\$ 35,500</u>	<u>\$ 5,815</u>

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 6. Long-term Debt (Continued)**

**D. Changes In Long-term Debt**

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 72,288	\$ 93,500	\$ 23,400	\$ 142,388	\$ 40,497

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 8. Insurance**

For the fiscal year ended June 30, 2007, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Continued)**

**Note 9. Related Parties**

Hubert Shouse is the Jailer of Owsley County and is the uncle of the owner of Shouse Construction. The total amount expended to Shouse Construction for the fiscal year 2007 was \$13,950.

**Note 10. Subsequent Review**

On July 5, 2007 the Fiscal Court approved applying for a temporary operating loan in the amount of \$100,000 from Farmers State Bank. Loan proceeds were deposited on July 6, 2007; \$60,000 into the General Fund and \$40,000 into the Road Fund.

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**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**



**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2007**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 339,000	\$ 339,000	\$ 353,920	\$ 14,920
In Lieu Tax Payments	21,400	21,400	18,521	(2,879)
Intergovernmental Revenue	553,354	1,050,448	588,327	(462,121)
Charges for Services	18,000	18,000	31,132	13,132
Miscellaneous	229,155	252,905	236,091	(16,814)
Interest	400	400	672	272
Total Revenues	1,161,309	1,682,153	1,228,663	(453,490)
<b>EXPENDITURES</b>				
General Government	794,704	1,036,478	836,979	199,499
Protection to Persons and Property	34,000	99,250	74,120	25,130
General Health and Sanitation	34,620	144,981	89,550	55,431
Social Services	2,500	3,900	3,886	14
Recreation and Culture	245,000	317,714	39,298	278,416
Roads	27,000	40,300	40,288	12
Debt Service		50,415	50,415	
Capital Projects		10,000	10,000	
Administration	181,062	187,107	178,548	8,559
Total Expenditures	1,318,886	1,890,145	1,323,084	567,061
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(157,577)	(207,992)	(94,421)	113,571
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		50,415	51,810	1,395
Transfers from Other Funds	222,690	222,690	222,000	(690)
Transfers to Other Funds	(85,113)	(58,113)	(195,550)	(137,437)
Total Transfers & Other Financing Sources (Uses)	137,577	214,992	78,260	(136,732)
Net Changes in Fund Balance	(20,000)	7,000	(16,161)	(23,161)
Fund Balance - Beginning	20,000	20,000	36,268	16,268
Fund Balance - Ending	\$ 0	\$ 27,000	\$ 20,107	\$ (6,893)

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 18,460	\$ 18,460	\$ 25,808	\$ 7,348
Intergovernmental Revenue	1,174,863	1,376,263	1,404,581	28,318
Miscellaneous	45,500	235,500	84,210	(151,290)
Interest	600	600	760	160
Total Revenues	1,239,423	1,630,823	1,515,359	(115,464)
<b>EXPENDITURES</b>				
General Government	10,800	10,800	10,800	
Roads	874,805	1,273,365	1,216,680	56,685
Debt Service		40,348	40,348	
Capital Projects	2,000	2,000	600	1,400
Administration	187,548	180,388	179,681	707
Total Expenditures	1,075,153	1,506,901	1,448,109	58,792
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	164,270	123,922	67,250	(56,672)
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		40,348	58,382	18,034
Transfers from Other Funds	33,420	33,420	103,420	70,000
Transfers to Other Funds	(222,690)	(222,690)	(222,000)	690
Total Transfers & Other Financing Sources (Uses)	(189,270)	(148,922)	(60,198)	88,724
Net Changes in Fund Balance	(25,000)	(25,000)	7,052	32,052
Fund Balance - Beginning	25,000	25,000	19,921	(5,079)
Fund Balance - Ending	\$ 0	\$ 0	\$ 26,973	\$ 26,973



**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

	<b>JAIL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 125,100	\$ 150,100	\$ 37,510	\$ (112,590)
Miscellaneous	500	500	366	(134)
Interest	100	100	79	(21)
Total Revenues	125,700	150,700	37,955	(112,745)
<b>EXPENDITURES</b>				
Protection to Persons and Property	238,019	265,268	213,113	52,155
Administration	6,854	4,605	4,554	51
Total Expenditures	244,873	269,873	217,667	52,206
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(119,173)	(119,173)	(179,712)	(60,539)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	115,173	150,573	187,000	36,427
Transfers to Other Funds			(6,500)	(6,500)
Total Transfers & Other Financing Sources (Uses)	115,173	150,573	180,500	29,927
Net Changes in Fund Balance	(4,000)	31,400	788	(30,612)
Fund Balance - Beginning	4,000	4,000	7,065	3,065
Fund Balance - Ending	\$ 0	\$ 35,400	\$ 7,853	\$ (27,547)

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 117,200	\$ 117,200	\$ 141,194	\$ 23,994
Miscellaneous	500	500	157	(343)
Interest	200	200	73	(127)
Total Revenues	117,900	117,900	141,424	23,524
EXPENDITURES				
General Government	7,200	7,200	7,200	
Protection to Persons and Property	34,944	34,294	23,697	10,597
General Health and Sanitation	4,500	1,600	1,600	
Social Services	4,800	14,350	14,349	1
Administration	10,976	4,976	4,353	623
Total Expenditures	62,420	62,420	51,199	11,221
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	55,480	55,480	90,225	34,745
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			6,500	6,500
Transfers to Other Funds	(63,480)	(55,080)	(96,420)	(41,340)
Total Transfers & Other Financing Sources (Uses)	(63,480)	(55,080)	(89,920)	(34,840)
Net Changes in Fund Balance	(8,000)	400	305	(95)
Fund Balance - Beginning	8,000	8,000	6,025	(1,975)
Fund Balance - Ending	\$ 0	\$ 8,400	\$ 6,330	\$ (2,070)

**OWSLEY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2007**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The county did not prepare a budget for the Local Governmental Economic Development Fund.

**Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances**

	Revenues	Expenditures	Other Financing Sources (Uses)
<b>General Fund</b>			
Budgetary Comparison Schedule	\$ 1,228,663	\$ 1,323,084	\$ 78,260
Kentucky Advanced Revenue Program Interest	1,810		(1,810)
Operating Loan Proceeds/Repayment		(50,000)	(50,000)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 1,230,473</u>	<u>\$ 1,273,084</u>	<u>\$ 26,450</u>
	Revenues	Expenditures	Other Financing Sources (Uses)
<b>Road Fund</b>			
Budgetary Comparison Schedule	\$ 1,515,359	\$ 1,448,109	\$ (60,198)
Mack Truck Sale Proceeds	(170,155)		170,155
Mack Truck Purchases/Lease Proceeds		380,800	380,800
Purchase of Ramming Hammer/Lease Proceeds		35,500	35,500
Loan Proceeds	(40,000)		40,000
Kentucky Advance Revenue Program Interest	382		(382)
Voided Prior Year Outstanding Checks		(639)	
Operating Loan Proceeds/Repayment		(40,000)	(40,000)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 1,305,586</u>	<u>\$ 1,823,770</u>	<u>\$ 525,875</u>

The ending fund balance - modified cash basis differs from the ending fund balance - budgetary basis by \$639 for prior year voided checks.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



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The Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With *Government Auditing Standards*

We have audited the financial statements of the governmental activities and each major fund of the Owsley County Fiscal Court, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 19, 2007. The Owsley County Fiscal Court presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control over financial reporting.

We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting. The deficiency is listed as item: 2007-4.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that the significant deficiency described above is not a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley County Fiscal Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items: 2007-1, 2007-2, and 2007-3.

The Owsley County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

October 19, 2007



**OWSLEY COUNTY  
COMMENTS AND RECOMENDATIONS**

**For The Year Ended June 30, 2007**



**OWSLEY COUNTY  
COMMENTS AND RECOMENDATIONS**

**For The Year Ended June 30, 2007**

NONCOMPLIANCES

**2007-1 The County Should Bid All Expenditures Greater Than Twenty Thousand Dollars Or Duly Certify That An Emergency Exists**

According to KRS 424.260(1) "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

However, KRS 424.260(4) states that this, KRS 424.260 (1), requirement shall not apply in an emergency if the chief executive officer of the city, county, or district has duly certified that an emergency exists, and has filed a copy of the certificate with the chief financial officer of the city, county, or district.

During our audit, we noted an instance where the Owsley County Fiscal Court did not advertise for bids for a purchase over \$20,000, or duly certify that an emergency existed.

We recommend that the fiscal court bid all expenditures over \$20,000 if an emergency exists the County Judge Executive should state so in the minutes of the fiscal court meeting and file a copy of the certificate with the county treasurer.

*Cale Turner, Owsley County Judge Executive's Response: It was an emergency because of the busses traveling the road. School was calling due to several wrecks on this road. Fiscal Court gave judge Turner authority to emergency neg. a price.*

*Discussed in an open court meeting. Clearly stating that this was an emergency and had approval from the court to get work done as soon as possible at best price could negotiate.*

*Auditors' Response: Documentation of emergency declaration must be maintained. Absence of this documentation creates a noncompliance with Kentucky bid laws.*

**2007-2 The County Judge/Executive Appears To Have Been Underpaid**

Per KRS 64.5275(2) the maximum salary of county judge/executives shall be fixed by the Governor's Office for Local Development according to a salary schedule in accordance with Section 246 of the Kentucky Constitution. Per KRS 64.5275(6) each officer shall be paid an annual incentive of one hundred dollars per calendar year for each forty (40) hour training unit successfully completed, based on continuing service in that office.

During our test of payroll, we discovered the Judge/Executive, Cale Turner, was underpaid by at least \$1,772 for the calendar year 2006 according to the statutory maximum schedule prepared by the Governor's Office for Local Development. Also, the Judge/Executive did not accept the training incentive pay for the 2006 calendar year that he qualified for. The Judge/Executive is allowed to receive \$825 per successfully completed units of training for up to four units totaling \$3,300.

Also Judge/Executive Cale Turner was underpaid \$1,656 for the calendar year 2005. The Judge/Executive did not accept the training incentive pay of \$798 that he qualified for in 2005.

We recommend that the Owsley County Fiscal Court pay the Judge/Executive \$3,428 for the net underpayment of his statutory maximum salary for the 2005 and 2006 calendar years.

**OWSLEY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2007**  
**(Continued)**

NONCOMPLIANCES (CONTINUED)

**2007-2 The County Judge/Executive Appears To Have Been Underpaid (Continued)**

*Cale Turner, Owsley County Judge Executive's Response: We will correct this pay amount now, and we will start each year in Feb when the new schedule comes out.*

**2007-3 The Fiscal Court Should Prepare A Budget For The LGED Fund**

Per KRS 68.240 the county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year.

During our audit we noted that the county failed to adopt a budget for the LGED fund.

We recommend the County adopt a budget in future fiscal years for all funds.

*Cale Turner, Owsley County Judge Executive's Response: We will look at the agreement and if it allows us to we plan on start running it through the general fund.*

SIGNIFICANT DEFICIENCIES

**2007-4 The County Treasurer Should Post Payments To The Appropriate Account Code**

Throughout our audit testing, we noted several transactions that were not posted to the appropriate account code. We specifically noted the following:

- Five expenditures not properly posted
- Six debt service payments not properly posted
- Two revenues (receipt from sales) not properly posted
- One lease proceed not properly posted

We recommend the County Treasurer ensure that payments and receipts are posted to the correct account codes in the future. The County Treasurer should consult the Budget Manual provided by the Governor's Office for Local Development to determine the appropriate account codes for revenues and expenditures.

*Cale Turner, Owsley County Judge Executive's Response: We made a note to put correct codes and are corrected in current budget.*

PRIOR YEAR COMMENTS - NOT CORRECTED

- The County Judge/Executive Appears To Have Been Underpaid
- Final Adopted Budget Receipts And Expenditures Did Not Balance And A Budget Was Not Adopted For The LGED Fund

**OWSLEY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2007**  
**(Continued)**

**PRIOR YEAR COMMENTS - CORRECTED**

- The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements
- The Fiscal Court Should Pay Invoices Within Thirty Days Of Receipt Of A Vendor's Invoice
- The County Treasurer Should Require Timesheets Be Maintained By All Non-Elected Employees And Approved By A Supervisor
- The County Should Notify The State Local Debt Officer Of All New Debt



**OWSLEY COUNTY FISCAL COURT  
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC  
ASSISTANCE AND DEVELOPMENT PROGRAMS**

**For The Fiscal Year Ended  
June 30, 2007**

Appendix A





**OWSLEY COUNTY FISCAL COURT  
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC  
ASSISTANCE AND DEVELOPMENT PROGRAMS**

**For The Fiscal Year Ended  
June 30, 2007**


Appendix A

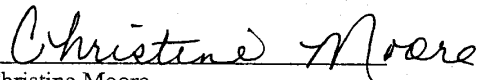


**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE**  
**AND DEVELOPMENT PROGRAMS**  
**OWSLEY COUNTY FISCAL COURT**

**For The Year Ended June 30, 2007**

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Cale Turner  
County Judge/Executive

  
\_\_\_\_\_  
Christine Moore  
County Treasurer

